

April 2009

## **INFORMATION**

### **Des Moines District Office**

210 Walnut Street, Rm. 749  
Des Moines, IA 50309-2186  
(515) 284-4422  
(515) 284-4572 (Fax)  
[www.sba.gov/ia](http://www.sba.gov/ia)

Joseph M. Folsom  
District Director  
(515) 284-4026  
[joseph.folsom@sba.gov](mailto:joseph.folsom@sba.gov)

### **Cedar Rapids Branch Office**

2750 1<sup>st</sup> Ave. NE – Ste. 350  
Cedar Rapids, IA 52402  
(319) 362-6405  
(319) 362-7861 (Fax)

Dennis Larkin  
Branch Manager  
(319) 362-6405 ext. 2020  
[G.D.Larkin@sba.gov](mailto:G.D.Larkin@sba.gov)

### **Standard 7(a) Loan Guaranty Processing Center**

6501 Sylvan Road  
Citrus Heights, CA 95610  
Phone: (916) 735-1515  
ext. 4368  
Contact: Dusty Rhoads  
Fax: (916) 930-2180  
**OR**  
262 Black Gold Blvd.  
Hazard, KY 41701  
Contact: Clarence Woods  
Phone: 606-436-0801  
ext. 229  
Fax: (606) 435-2400  
E-mail:  
[loanprocessing@sba.gov](mailto:loanprocessing@sba.gov)

### **Fresno Servicing Center**

Fresno, CA  
(559) 487-5650  
(559) 487-5803 Fax

### **Liquidation & Purchase Center**

Herndon, VA  
(703) 487-9283  
(202) 481-4674 Fax

### **504 & PLP Processing Center**

6501 Sylvan Road  
Citrus Heights, CA 95610  
(916) 930-2463 or 930-2460  
(916) 930-2160 FAX

All SBA programs and services are provided on a nondiscriminatory basis.

## **Small Business Week 2009 and Some Notes on Recovery**

Dear Lender:

We will be celebrating the role small businesses have in our economy and community over the next several weeks, culminating in National Small Business Week the week of May 17<sup>th</sup>. This Thursday at the SMART Economic Development Conference we will be recognizing our state small business winners and presenting awards to a business, non-profit organization and public official for their role in recovery from last year's devastating floods and tornados.

Congratulations to the following winners:

### **Iowa Minority Small Business Person of the Year**

Guy Richard - Des Moines, Iowa

### **Iowa Small Business Person of the Year**

John F. Lohman - Coralville, Iowa

### **Iowa Small Business Exporter of the Year**

Mark and Julie Schuett  
American Natural Soy, Inc. - Cherokee, Iowa

### **Iowa Small Business Journalist of the Year**

KCRG – TV9 - Cedar Rapids Iowa

### **Phoenix Disaster Recovery Award “Outstanding Iowa Small Business”**

David and Danise Petsel  
Petsel Ventures LLC - Corallville, Iowa

### **Phoenix Disaster Recovery Award “Outstanding Iowa Volunteer”**

Cedar Rapids Small Business Recovery Group

### **Phoenix Disaster Recovery Award “Outstanding Iowa Public Official”**

Mayor Jeff Beauregard  
Palo, Iowa

### **District Director's Award for Outstanding Contributions to Disaster Recovery in Iowa** Cedar Rapids SCORE Chapter

### **District Director's Award for Outstanding Contributions to Disaster Recovery in Iowa** Iowa Small Business Development Centers

The role of small business is ever so important. Like the rest of the country, Iowa is dominated by small businesses, 260, 000 of them representing 99 percent of the state's businesses, 97.4 percent of the state's employers and employing 51 percent of its private sector employment. For three-fourths of these firms the owner is the sole employee.

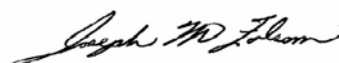
Iowa has a strong financial services sector as demonstrated in how well the institutions and the constituents they serve have weathered the stresses of our economic challenges. The tools provided by the American Recovery and Reinvestment Act (ARRA) are intended to strengthen this team of small businesses and the financial institutions giving each the capacity to lead in our economic recovery.

We are pleased with the response. Lender inquiries and interest have heightened immensely with the opportunity for 90% guarantees on 7(a) loans and the waiver of upfront borrower fees on 7(a) and 504 loans. We have conducted numerous one-on-one lender training sessions. It has kept our staff extremely busy. We encourage you to reach out with your questions and we are still available to provide training. Meanwhile, do not hesitate to give us a call. Valuable information can be found on our website for lenders at [www.sba.gov/banking](http://www.sba.gov/banking). Information on small rural lender advantage is at [www.sba.gov/rurallenderadvantage](http://www.sba.gov/rurallenderadvantage).

We also encourage lenders to sign up for the E-Tran internet interface. This interface allows SBA Express, Community Express, Patriot Express and Preferred lenders with delegated authorities to submit applications electronically. It can also be used by all lenders for some basic unilateral actions such as name and address changes. We understand the ARC loan stabilization program that is apart of the ARRA will have provisions for the use of the E-Tran interface to simplify and shorten processing. Information can be found on the [www.sba.gov/banking](http://www.sba.gov/banking) website.

Please also see the notice on fraud detection at the end of this newsletter. Concerns about potential fraud have increased in light of the recent passage of the American Recovery and Reinvestment Act and we hope that you'll assist us in watching out for potential fraud.

Sincerely



Joseph M. Folsom  
District Director

## Treatment of Cancellations of Loans Approved Prior to the Recovery Act

On March 16, 2009, SBA Policy Notice No. 5000-1097 announced changes in SBA 7(a) and 504 program fees. On the same date, SBA issued Policy Notice No. 5000-1098 to announce changes to the maximum guaranty for 7(a) loans. These fees and maximum guaranty percentages were changed by the American Recovery and Reinvestment Act of 2009.

The fee changes apply to 7(a) loans approved on or after February 17, 2009 and to 504 loans approved or pending approval on or after that date. The guaranty percentage changes apply to 7(a) loan applications (except SBA Express loans) received by SBA on or after March 16, 2009.

The question has arisen from the SBA lending industry as to whether an SBA loan approved before February 17, 2009, may be cancelled and resubmitted to receive the benefit of the change in fees. In addition, the question has arisen as to whether loans approved prior to March 16, 2009 (the implementation date of Section 502 of the Recovery Act), may be cancelled and resubmitted to take advantage of the increase in the maximum guarantee percentage of up to 90 percent.

In both scenarios cancellation and resubmission of the same loan would use the limited appropriations made available under the Recovery Act to provide fee relief and/or an increased guaranty on loans already approved without the need for the provisions of the Recovery Act and would be contrary to the intent of the new law to stimulate new lending.

Therefore, SBA will not permit cancelled 7(a) and 504 loans that were approved by SBA prior to February 17<sup>th</sup>

to be resubmitted as reduced-fee Recovery Act loans, unless the resubmitted loan is not a replacement for the original loan, as determined by SBA on a case by case basis. Similarly, SBA will not permit cancelled 7(a) loans approved prior to March 16, 2009 (the implementation date for Section 502 of the Recovery Act) to be resubmitted as Recovery Act loans eligible for a maximum guaranty of up to 90 percent, unless the resubmitted loan is not a replacement for the original loan as determined by SBA on a case by case basis.

Requests for such consideration must be submitted by the lender to the Standard 7(a) Loan Guaranty Processing Center in Citrus Heights, California. The request will be reviewed and a recommendation will be forwarded to the Director/Office of Financial Assistance for approval.

In making a case by case determination on resubmitted loans, the existence of one or more of the following factors will make it more likely that SBA will approve the request:

i) the loan was cancelled for reasons other than the passage of the Recovery Act (e.g., the loan was cancelled because the location for the new business was not available; subsequently another location became available and a new loan was requested);

ii) the new loan is for a different purpose (e.g., the original loan was for working capital but the new loan is for the acquisition of real estate);

iii) the new loan is likely to achieve additional economic stimulus (e.g., the

previous loan would have preserved jobs but the new loan will also create new jobs); or,

iv) the new loan could not be made but for the provisions of the Recovery Act (e.g., the loan was cancelled because the borrower failed to meet a key provision (e.g., appraisal value) in the original loan authorization and, therefore, the lender would not make the loan now but for the higher guaranty level.)

Based on past cancellation experience in SBA's loan programs, SBA expects that only a limited number of borrowers with cancelled loans will meet the criteria for a new loan with reduced fees and/or a higher guaranty.

It is possible for a lender to apply for a waiver for one part of the Recovery Act (e.g., 90 percent guaranty) without seeking a waiver for the other. In general, waivers for fee relief, simply to save the borrower the expense, will not be approved.

In addition, changes to all loans approved prior to February 17, 2009, including loan increases, will be processed as changes to the original loan in accordance with SBA's standard practice, and loan fees will be assessed under the rules in effect at the original approval date.

Finally, if limited debt refinancing is added to a project under the 504 Development Company Program as permitted by the Recovery Act, changes will be processed as amendments to the original loan and not as a new loan, in accordance with SBA's standard practice.

Questions should be directed to the Des Moines or Cedar Rapids SBA offices.

### Small Business Week 2009

Find the complete details on Small Business Week 2009 at <http://www.nationalsmallbusinessweek.com/>

## CAPLines - An Option for Your Customers' Working Capital Needs

Maintaining a healthy level of working capital in a small business is a constant challenge and in today's economic environment a greater one. Even with excellent management, particularly of the most manageable of the components, inventory and receivables, there may still be a need for additional short-term working capital.

Additional borrowing and equity injections often are limited. The SBA's CAPLines program, designed to help a small businesses meet its short-term and cyclical working-capital needs, may be an option. There are five programs for small businesses under the CAPLines umbrella:

**Seasonal Line:** These are advances against anticipated inventory and accounts receivable help during peak seasons when businesses experience seasonal sales fluctuations.

**Contract Line:** Finances the direct labor and material cost associated with performing assignable contracts.

**Builders Line:** If you are a small general contractor or builder constructing or renovating commercial or residential buildings, this can finance direct labor-and material costs. The building project serves as the collateral.

**Standard Asset-Based Line:** This is an asset-based revolving line of credit for businesses unable to meet credit standards associated with long-term credit. Repayment comes from converting short-term assets into cash, which is remitted to the lender. Businesses continually draw from this line of credit, based on existing assets, and repay as their cash cycle dictates. This line generally is used by businesses that provide credit to other businesses. Because these loans

require continual servicing and monitoring of collateral, additional fees may be charged by the lender.

**Small Asset-Based Line:** This is an asset-based revolving line of credit of up to \$200,000. It operates like a standard asset-based line except that some of the stricter servicing requirements are waived, providing the business can consistently show repayment ability from cash flow for the full amount.

Operating Lines can also be made under Express, Community Express and Patriot Express. We will cover these in more detail in an upcoming newsletter.

For more information on CAPLines, contact the Des Moines District or Cedar Rapid Branch Office.

## SBA Lender Activity Report for March

LENDER NAME	LOCATION	#	AMOUNT
LIBERTY SAVINGS BANK	WDM	4	\$690,000
FIRST AMERICAN BANK	FT. DODGE	3	\$655,000
IOWA STATE BANK	DES MOINES	3	\$78,000
HILLS BANK & TRUST CO.	HILLS	3	\$75,000
VALLEY BANK	ILLINOIS	2	\$1,785,000
IOWA BUSINESS GROWTH CO.	JOHNSTON	2	\$1,128,000
WELLS FARGO BANK	IOWA	2	\$1,076,800
VANTUS BANK	SIOUX CITY	2	\$396,000
NORTHWEST BANK & TRUST CO.	DAVENPORT	2	\$170,000
CEDAR RAPIDS BNK & TRUST CO	CEDAR RAPIDS	1	\$1,050,000
CHARTER BANK	JOHNSTON	1	\$750,000
LEGACY BANK	ALTOONA	1	\$490,000
UNITED BANK & TRUST COMPANY	SHEFFIELD	1	\$330,000
CORP. FOR ECON. DEVELOPMENT	DES MOINES	1	\$316,000
COMMUNITY SAVINGS BANK	EDGEWOOD	1	\$250,000
PINNACLE BANK	MARSHALLTOWN	1	\$240,000
STATE CENTRAL BANK	KEOKUK	1	\$180,000

LENDER NAME	LOCATION	#	AMOUNT
HERITAGE BANK	HOLSTEIN	1	\$155,000
THE STATE BANK OF TOLEDO	TOLEDO	1	\$150,000
HARDIN COUNTY SAVINGS BANK	ELDORA	1	\$150,000
BANKIOWA	CEDAR RAPIDS	1	\$150,000
EXCHANGE STATE BANK	ADAIR	1	\$100,000
FIRST NATL BANK OF OMAHA	NEBRASKA	1	\$94,000
MELVIN SAVINGS BANK	SIBLEY	1	\$75,000
BLACK HAWK ECON. DEV.	WATERLOO	1	\$67,000
FARMERS STATE BANK	MARION	1	\$65,500
SIOUXLAND ECON. DEV. CORP.	SIOUX CITY	1	\$62,000
DUPACO COMMUNITY CU	DUBUQUE	1	\$50,000
CITY STATE BANK	AMES	1	\$44,000
FIRST NATIONAL BANK	AMES	1	\$39,000
CITIZENS BANK	MICHIGAN	1	\$25,000
SUPERIOR FINANCIAL GROUP	CALIFORNIA	1	\$20,000
NORTHWEST BANK	SPENCER	1	\$15,000
INNOVATIVE BANK	CALIFORNIA	1	\$25,000

*The following lenders were participant lenders in the SBA's 504 Loan Program in Iowa during the month of March*

LENDER NAME	LOCATION	#	AMOUNT
PEOPLES NATIONAL BANK	COLORADO	1	\$1,066,666
FARMERS & TRADERS SVGS BNK	BANCROFT	1	\$600,000
BANK IOWA	WDM	1	\$390,500

LENDER NAME	LOCATION	#	AMOUNT
VERIDIAN CU	WATERLOO	1	\$107,250
WASHINGTON COUNTY BANK	NEBRASKA	1	\$82,500



# SBA Information Notice

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**TO:** All SBA Employees

**CONTROL NO.:** 9000-1793

**SUBJECT:** Detecting Fraud in Small Business  
Administration Lending Programs

**EFFECTIVE:** 4-7-2009

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This Notice provides information, tips and recommendations to detect and deter fraud in the Small Business Administration (SBA) business loan programs. All District Offices and Centers are asked to forward this Notice on to lenders and Certified Development Companies in their area as lending officials are often the first line of defense in identifying and reporting fraud to the SBA Office of Inspector General (OIG).

Every year, the OIG obtains multiple convictions of borrowers and loan agents that have committed fraud in the SBA business loan programs. The OIG's concerns about potential fraud have increased in light of the recent passage of the American Recovery and Reinvestment Act, which implements new lending programs and is intended to expand significantly SBA loan volume.

Detecting and reporting fraud is in the best interest of all program participants. Fraud undermines public confidence in the public benefits of SBA lending programs, which support economic opportunity, small business growth and job creation. In addition, fraud can lead to higher program costs for borrowers and lenders, alike.

The SBA OIG would like to make you aware of fraud patterns that we continue to see in our loan fraud investigations so you can be on the lookout for such fraud. Lenders and other program participants are urged to exercise a high level of diligence if there is suspicious activity and to report suspected fraud to the OIG through the contact information at the end of this Notice.

Listed below are some of the most common types of fraud identified in SBA loan fraud investigations.

## A. Loan Agent Fraud

A prospective borrower or a lender sometimes pays a loan agent (e.g., loan brokers/packagegers) to prepare documentation for an SBA loan application and/or refer the borrower to a lender. Loan agents can provide a useful function in bringing borrowers and lenders together and facilitating loan transactions. However, OIG investigations during the past ten years have identified fraud schemes perpetrated by loan agents in the hundreds of millions of dollars.

When working with loan agents, we encourage lenders to consider the following potential fraud indicators:

- a. The loan agent has a record of early defaults,
- b. The loan agent controls of all communication between the lender and the borrower,
- c. The loan agent threatens to "shop" the loan elsewhere,
- d. The loan agent provides a high number of "qualified" borrowers in a short period of time,
- e. The loan agent's apparent ease in resolving seemingly difficult questions or problems with a loan,

- f. The loan agent steers the lender to specific appraisers or title companies,
- g. The borrower replies “no” when asked if a “packager” was paid to prepare the loan application, when it is known a loan agent is involved in the process,
- h. Multiple loan applications are submitted simultaneously to different lenders for the same borrower, as indicated in credit reports, and
- i. The loan agent charges excessive fees.

To protect against a potentially corrupt loan agent, lenders are encouraged to:

- Track loan agent participation in their portfolios to determine whether agents are bringing an unusually high number of loans that experience early defaults or other significant problems,
- Ask loan agents for references from officials at other lending institutions,
- Search public databases to identify problems (e.g. bankruptcies/revocation of business licenses) and check Better Business Bureau records,
- Communicate directly with borrowers about the loan and loan application, loan agent performance and fees, and
- Use a reputable appraiser and title company known to the lender (loan agent fraud has often been found to involve collusion with title and other companies).

## B. Borrower Fraud

Borrowers, whether acting alone or in collusion with others, may intentionally provide false information to SBA and lending institutions during the loan application process as detailed below:

### 1. False Equity Injection

Based on OIG loan fraud investigations, false equity injection is a significant and recurring problem. False documents submitted to verify the required equity injection often include:

- a. False gift letters or gift affidavits,
- b. False promissory notes and standby agreements,
- c. False financial statements, or
- d. False bank statements and cashier checks.

Indications of fraudulent equity injection to watch out for include:

- a. Gift letters and gift affidavits (investigation often proves such “gifts” to be false – either the money does not exist, or it is never paid into the business, or it is subsequently repaid to the donor),
- b. Tax returns reporting income that does not seem to support the required equity injection,
- c. Bank statements that upon close inspection appear to have been altered,
- d. Bank account records showing a recent, unexplained, large dollar deposit into the borrower’s account, and
- e. Credit reports showing a poor credit history for a borrower who claims to have substantial cash.

There are many ways a borrower or loan agent may attempt to falsify the equity injection or conceal the actual source of funds. OIG investigations have often determined that the cash injected was actually borrowed, and that the related debt was not disclosed to the lender or SBA. As a reminder,

lenders are expected to comply with the equity injection verification requirements contained in SBA Standard Operating Procedures (SOP) 50-10-5(A) Chapter 4, and SOP 50-51(C) Chapter 13. When lending officials are suspicious that equity injection verification documents may be false, it is suggested that lenders take affirmative steps to detect and deter such fraud such as the following:

- If a gift letter is involved, have both the donor and the borrower sign an affidavit detailing the alleged gift and stating that the gift does not have to be repaid or returned, and request that the borrower provide a copy of a bank statement showing the injection was made prior to disbursement,
- If funds are being transferred by wire (especially from a foreign country), request a copy of the wire transfer and include it in the loan file, and
- If an inheritance is cited, verify that the funds exist by obtaining a copy of the inheritance bank statement showing the funds exist prior to disbursement.

Once obtained, these documents should be carefully reviewed.

The OIG encourages lenders to take proactive steps in order to reduce fraud, including such measures as having borrowers sign a certification at closing detailing the equity injection requirements for the SBA loan, and specifically how they have been met, and verifying with bank records that the equity injection is actually put into the business prior to disbursement, and used by the business.

## 2. Other Types of Borrower Fraud

Lenders should also be aware of these significant types of borrower fraud found in OIG investigations:

- a. Overstating income,
- b. Understating or failing to disclose liabilities and debts,
- c. Overvaluing collateral,
- d. Failing to disclose criminal record,
- e. Making false claims of U.S. citizenship,
- f. Failing to disclose true ownership of the business,
- g. Using false Social Security numbers to conceal poor credit histories,
- h. Submitting altered tax returns,
- i. Providing fraudulent standby agreements, and
- j. Creating false work histories.

## Lender Internal Controls to Deter and Detect Fraud

The vast majority of lending officials are honest, and the SBA OIG has identified very few instances of fraud by loan officers and other lender employees. However, even one corrupt lending official can damage the institution's reputation and profitability as reflected in the recent conviction of a loan officer for fraud involving approximately \$85 million in SBA-guaranteed loans. Therefore, vigilance is needed to prevent fraudulent practices within the lending community. Although many lenders have undoubtedly implemented processes to identify potential fraud and improper activities, the SBA OIG recommends consideration of the following practices and internal controls to deter and detect suspicious lending activity:

- a. Development of sufficient management oversight of loan approvals, including the use of multiple "eyes" reviewing the underlying documents that are used in generating credit approval memoranda, at least on larger dollar loans,

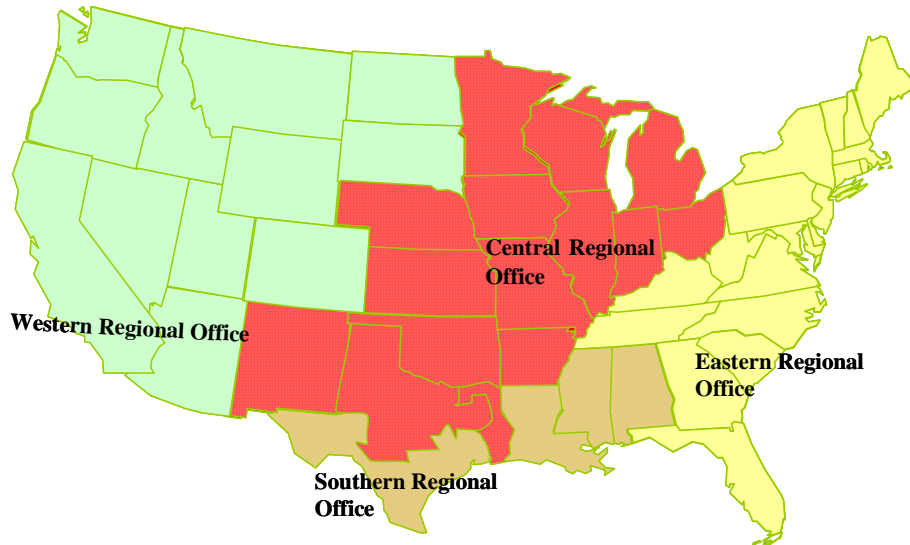
- b. Policies (such as a Code of Conduct) to require business development officers and other lender personnel to disclose the involvement of loan agents in generating or packaging loans,
- c. Limits on commissions and other internal inducements that provide incentives for loan officers to concentrate on loan volume at the expense of loan quality,
- d. Internal review and auditing functions to examine the reasons why a particular lending official may have an unusually high number of loans that go into early default or experience other significant problems,
- e. Internal review and auditing functions to examine the reasons why a particular lending official may have a significantly higher loan volume than his/her colleagues, particularly if that lending official is known to work with a particular loan agent or agents, and
- f. Policies to require a higher level of due diligence in reviewing change of ownership transactions as numerous OIG investigations have identified fraud on these type of loans.

### Reporting Fraud

The OIG encourages all SBA employees and lenders to be on the lookout for fraud. If you suspect fraud, please report it to the OIG immediately by contacting the OIG Hotline at 1-800-767-0385 or [OIGHotline@sba.gov](mailto:OIGHotline@sba.gov). Or, if you prefer, you may directly contact the OIG office in your geographical area. A map of OIG regions and contact information is attached to this Notice for your information and convenience.

Peter L. McClintock  
Acting Inspector General

## SBA OIG REGIONAL OFFICES



**Western Regional Office**      **Daniel Sanchez, Special Agent-in-Charge**  
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